



**VILLAGE OF NORTH LILBOURN, MISSOURI  
YEAR ENDED JUNE 30, 2001**

**From The Office Of State Auditor  
Claire McCaskill**

**Report No. 2002-19  
March 11, 2002  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)**

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

March 2002

The following problems were discovered as a result of an audit conducted by our office of the Village of North Lilbourn, Missouri.

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The Village of North Lilbourn is in poor financial condition. The village had liabilities of approximately \$13,000 at June 30, 2001, including \$9,800 to the City of Lilbourn for unpaid water and sewer fees. The village's available cash balance at June 30, 2001, was only \$245.

The village has experienced significant financial loss for several years in the operation of its water, sewer, and trash collection services. The village provides services to approximately 35 customers. During the year ending June 30, 2001, disbursements for these services exceeded fees collected by approximately \$6,000.

The village is connected to the water and sewer system of the City of Lilbourn, and the city charges the village for both water and sewer usage based on the amount of water supplied to the village. The gallons of water pumped from the city to the village far exceeded the gallons billed to village customers. During the year ending June 30, 2001, the village billed its customers for only 15 percent of the total gallons billed to the village by the city. The village should investigate and correct the problems that cause the significant differences between total gallons of water billed to customers and gallons of water pumped into the village by the City of Lilbourn. If the village officials cannot make the necessary changes, they should work with the City of Lilbourn to allow the city to take over the operation of the water and sewer system.

Fee collection and shutoff procedures for water, sewer, and trash services are not adequate. As of October 23, 2001, uncollected fees totaled approximately \$2,300, which is equivalent to 2 to 3 months of total customer billings. Included in the uncollected amount is \$482 and \$167 due from village trustees, one of whom is solely responsible for disconnecting services for customers who do not pay their bills. Services are not disconnected or discontinued for non-payment of fees.

The village does not prepare annual budgets as required by state law. In addition, the village does not publish or publicly post semi-annual financial statements, and has not submitted annual financial statements to the State Auditor's Office since 1999.

(over)

YELLOW SHEET

The Village Collector/Treasurer does not adequately record all transactions on village accounting records. Disbursements are recorded on check registers but deposits are not recorded, and the account balances are not reconciled to bank balances. Additionally, the Board of Trustees does not review and approve the payment of village expenditures. The Village Collector/Treasurer receives the invoices and prepares and signs the checks and the Board Chairman normally co-signs the checks.

The audit also includes some matters related to board meetings and minutes, duties of the Village Collector/Treasurer, and bonding of village officials, upon which the city should consider and take appropriate corrective action.

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VILLAGE OF NORTH LILBOURN, MISSOURI

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**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Chairman  
and  
Board of Trustees  
Village of North Lilbourn, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Village of North Lilbourn, Missouri. The scope of our audit of the village included, but was not necessarily limited to, the year ended June 30, 2001. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the village.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the village's management and was not subjected to the procedures applied in the audit of the village.

The accompanying Management Advisory Report presents our findings arising from our audit of the Village of North Lilbourn, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill  
State Auditor

December 27, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA  
Audit Manager: Mark Ruether, CPA  
In-Charge Auditor: Cheryl Colter, CPA, CGFM

VILLAGE OF NORTH LILBOURN, MISSOURI  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

1.

**Financial Condition**

The village has experienced significant financial loss for several years in the operation of its water, sewer, and trash collection services. The village provides water, sewer, and trash collection services to approximately 35 customers. During the year ending June 30, 2001, disbursements for water, sewer, and trash services exceeded fees collected for providing these services by approximately \$6,000. Our review of village operations noted the following concerns:

- A. The village is connected to the water and sewer system of the City of Lilbourn, and the city charges the village for both water and sewer usage based on the amount of water supplied to the village. The gallons of water pumped from the city to the village far exceeded the gallons billed to village customers. Amounts billed to village customers are based on meter readings for each customer, and during the year ending June 30, 2001, the village billed its customers for only 15 percent of the total gallons billed to the village by the city. Village officials and the City of Lilbourn's Water Superintendent were unable to explain the significant differences. It appears the village may be experiencing significant water loss because 85 percent of the village's water usage is not billed to village customers.

To help ensure all water and sewer usage is properly billed, the village should investigate and correct the problems that cause the significant differences between total gallons of water billed to customers and the gallons of water pumped into the village by the City of Lilbourn. While some water loss is considered normal, the Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

- B. Fee collection and shutoff procedures for water, sewer, and trash services are not adequate. As of October 23, 2001, uncollected water, sewer, and trash fees totaled \$2,270, which is equivalent to 2 to 3 months of total customer billings. Our review noted the following concerns:
1. Bills for these services are prepared by the Village Collector. However the Board Chairman indicated he regularly lowers the bills of customers whom he believes cannot afford to pay the full amounts owed.
  2. Services are not disconnected or discontinued for non-payment of fees, and late payment penalties are not enforced. The Village Collector's records indicate some customers have not paid their bills for several months. In addition, the Board Chairman indicated three customers refuse

to pay trash fees and are no longer billed for these fees but still receive trash collection services.

3. Included in the uncollected amount of \$2,270 is \$482 and \$167 due from village trustees, one of whom is solely responsible for disconnecting services for customers who do not pay their bills.

To ensure all customers are treated equally, all customers should be billed at the established rates. To encourage the timely payment of fees, the village should enforce its disconnection and late payment penalty policies or establish other procedures to ensure all fees are collected.

To cover the operating losses noted above, the village uses revenues legally restricted for street purposes to pay for water, sewer, and trash expenditures. During the year ending June 30, 2001, the village received and deposited \$6,534 in state motor vehicle-related revenues into the community betterment account, and transferred \$6,869 from this account to the general account to pay for water, sewer, trash and other expenditures. Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street-related purposes.

The village had liabilities of approximately \$13,000 at June 30, 2001, including \$9,800 to the City of Lilbourn for unpaid water and sewer fees, \$2,700 to New Madrid County for unpaid election costs and property tax statement printing, and \$500 for customer meter deposits. The village's available cash balance at June 30, 2001, was only \$245.

The village needs to take immediate action to stop the financial losses related to the operation of its water, sewer, and trash services, and adopt a plan to eliminate its liabilities over a reasonable period of time. The village needs to work closely with the City of Lilbourn to determine the reasons for the significant differences between the amount of water purchased from the city and water billed to village customers. In addition, the village needs to ensure customers are billed for all services provided and improve procedures to collect unpaid amounts, and the village should review the water, sewer, and trash rates to ensure the rates are set to cover the costs of providing these services. If village officials cannot make the necessary changes, they should work with the City of Lilbourn to allow the city to take over the operation of these services provided to the village.

**WE RECOMMEND** the Board of Trustees review the operations of its water, sewer, and trash services and take immediate actions to stop the significant water loss, as well as the financial operating loss, currently experienced by the village, and discontinue using motor vehicle related revenues to fund these operations. The board should review the water, sewer, and trash rates to ensure the rates are set to cover all operating costs, and also improve its collection procedures. In addition, the board needs to adopt a plan to eliminate its liabilities over a reasonable period of time. If the necessary changes cannot be made to stop the losses, the board should work with the City of Lilbourn to allow the city to take over the operation of these services.

## **AUDITEE'S RESPONSE**

*Measures have been taken to try to work with the City of Lilbourn to take over the operations. The city indicated it is not interested in such an arrangement. We are currently in discussion with the New Madrid County Public Water Supply District #5 regarding taking over these operations.*

### **2. Budgets, Minutes, and Financial Statements**

- A. The village does not prepare an annual budget. Section 67.080, RSMo 2000, provides that no expenditure of public monies shall be made unless it is authorized in the budget.

Sections 67.010 to 67.080, RSMo 2000, set specific guidelines for the format, approval, and amendment of the annual operating budget. A complete and well planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of the village operations and provide a means to effectively monitor actual costs and revenues.

- B. Board meeting minutes are not signed. Board minutes should be signed by the Village Clerk as preparer and by the Chairman to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- C. The Board of Trustees does not have a regularly-scheduled meeting date. In November 1999, the board voted not to have a meeting every month, unless there is business to discuss. As a result, there is uncertainty as to when meetings will be held and who will decide when meetings are necessary. Meetings should be held on a regularly-scheduled basis to ensure the village's financial transactions are adequately monitored and concerns of village residents are communicated and addressed on a timely basis. In addition, Section 80.060, RSMo 2000, requires the Board of Trustees, by ordinance, to fix the time and place of holding their stated meetings.
- D. Financial statements are not published or posted publicly, or submitted annually to the State Auditor's office, as required by state law. Section 80.210, RSMo 2000, provides that the Board of Trustees in March and September is to prepare and publish semiannual financial statements in a local newspaper or to post semiannual financial statements in six public places within the village, and there is no documentation that this has been done for a number of years. Section 105.145, RSMo 2000, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's office, and the most recent report filed was for the year ended June 30, 1999.

**WE RECOMMEND** the Board of Trustees:

- A. Prepare complete and accurate annual budget documents that contain all information required by state law and/or necessary to provide a complete financial plan for the village.
- B. Ensure board meeting minutes are signed by the Village Clerk who prepares the minutes and the Board Chairman to attest to their completeness and accuracy.
- C. Adopt an ordinance fixing the time and place of regularly-scheduled board meetings.
- D. Publish or post semi-annual financial statements and submit annual financial reports to the State Auditor's office as required by state law.

**AUDITEE'S RESPONSE**

- A. *We agree, but it is difficult to prepare an accurate budget because the water and sewer charges from the city fluctuate significantly.*
- B&C. *We agree.*
- D. *We agree to post financial statements in six areas of the village. Regarding the annual financial statements, the statement for the year ended June 30, 2000, was prepared but neglected to be mailed to the State Auditor, and we do not recall receiving a blank form for the preparation of the financial statement for the year ended June 30, 2001.*

**3.**

**Accounting Controls and Procedures**

- A. The Board of Trustees has not appointed separate individuals to serve as Village Collector and Village Treasurer. Presently, the Village Treasurer serves as the Village Collector. He collects receipts, maintains the village's financial records, makes bank deposits, and signs or co-signs checks.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. The statutes pertaining to villages are similar to those cited in this opinion, therefore, the opinion's conclusion appears applicable to villages also.

Also, to safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be

improved by segregating duties to the extent possible. If a proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent review of accounting records, bank statements, and cancelled checks.

- B. The Village Collector/Treasurer does not adequately record all transactions on village accounting records or reconcile the accounting records to bank records. Disbursements are recorded on check registers but deposits are not recorded, and the account balances are not calculated and reconciled to bank balances. In addition, the village does not maintain a list of meter deposits received and held for customers.

All transactions should be recorded on check registers and account balances should be calculated and reconciled to bank balances to ensure records are in balance and errors are detected and corrected in a timely manner. In addition, a listing of meter deposits held should be prepared and reconciled to the applicable account balance to ensure sufficient funds are available to cover these liabilities.

- C. The Board of Trustees does not review and approve the payment of village expenditures. The Village Collector/Treasurer receives the invoices and prepares and signs the checks and the Board Chairman normally co-signs the checks. Expenditures made from village funds should be reviewed and approved by the Board of Trustees before payment is made to ensure all disbursements represent valid operating costs of the village. In addition, to adequately document the review and approval of all disbursements, a complete and detailed listing of bills should be prepared and signed or initialed by the trustees to denote their approval, and retained with the official minutes.

- D. The Village Collector/Treasurer is not bonded. Section 80.250, RSMo 2000, requires the Village Collector/Treasurer to be bonded in a sum not less than one thousand dollars. In addition, the Board Chairman signs checks and the Village Clerk collects property taxes, but they are not bonded. Failure to properly bond all persons with access to assets exposes the village to risk of loss.

Furthermore, village checking accounts indicate two signatures are required on checks, but some checks were issued with only the signature of the Village Collector/Treasurer. Requiring two signatures on all checks would also provide additional controls over the use of funds.

- E. While the village pays for electricity to run its water and sewer system, the village pays for additional electrical services it does not use. Although, the building formerly used as a village hall has not been open since December 2000, and the Board Chairman indicated the security light at the village hall has been unusable for several years, the village has continued to pay approximately \$28 per month for electricity for the village hall and security light.

In addition, for every month during the year ended June 30, 2001, the village paid the electric company a five-percent late payment penalty because the electric bill was not paid by the tenth of the month. During the year ending June 30, 2001, the late fees totaled \$74.

The village's residents have placed a fiduciary trust in their public officials to spend public funds in a necessary and prudent manner. The village should determine if electric services to the old village hall building and security light are still necessary, and attempt to pay its electric bills on a timely basis to avoid incurring late payment penalties.

**WE RECOMMEND** the Board of Trustees:

- A. Consider appointing separate individuals to the positions of Village Treasurer and Village Collector. If this is not possible, at a minimum, procedures for an adequate independent review of the accounting records should be established.
- B. Record account balances and all transactions on the check registers, maintain an open items listings for water meter deposits, and reconcile account balances to bank balances and the open items listing monthly.
- C. Review and approve the expenditure of village funds prior to the disbursements being made. In addition, the approval of disbursements should be adequately documented by including a listing of all approved disbursements in the board minutes.
- D. Obtain adequate bond coverage for all persons handling village monies and require two signatures on all checks.
- E. Determine if electric services to the former village hall and security light are necessary, and avoid incurring late payment penalties on electric bills.

**AUDITEE'S RESPONSE**

A. *We will establish procedures to perform an independent review of the records.*

B,C,  
&E. *We agree.*

D. *We cannot currently afford a bond for the treasurer, but we will consider this if money becomes available. Regarding check signing, a previous trustee who was a check signer moved out of the village, so only one signature was on the checks for a period of time. Two signatures are currently required on all checks.*

This report is intended for the information of the management of the Village of North Lilbourn, Missouri, and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

VILLAGE OF NORTH LILBOURN, MISSOURI  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The village of North Lilbourn was incorporated in 1954 and is located in New Madrid County. The population of the village in 2000 was 95.

The village government consists of a five-member board of trustees. The trustees are elected for two-year terms. The chairman and clerk are appointed by the board from the members. All elected and appointed officials serve without compensation and are not bonded. The board of trustees and the other principal official at June 30, 2001, were:

Elected Officials	Term Expires
Leonard Thomas, Chairman	April 2002
Tammy Evans, Clerk	April 2002
James Anderson, Trustee (1)	April 2003
Bennie Greer, Trustee (1)	April 2003
Barry Martin, Trustee	April 2003

Other Principal Officials

John Richard Hughes, Collector/Treasurer,

(1) Elected in April 2001 to replace Ed White and John Richard Hughes.

The village has no employees.

Assessed valuations and tax rates for 2000 were as follows:

ASSESSED VALUATION

Real estate	\$ 88,672
Personal property	63,130
Total	\$ <u>151,802</u>

TAX RATES PER \$100 ASSESSED VALUATION

	Rate	Expiration Date
General	\$ 0.50	None